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## Education: Topical References to CPA Examination Questions in Theory and Practice

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# Education

## Topical References to CPA Examination Questions in Theory and Practice

Candidates preparing for the CPA examination normally review past exams to get a feel for the testing material and to determine subject coverage and types of questions asked. Often, a candidate needs to concentrate on only a few selected topics to correct deficiencies in such areas. Or, a candidate may desire extensive references for systematic study.

CPA examination questions are useful to educators for classroom discussion and for quizzes in upper level accounting courses. They also provide material for

use by those conducting examination reviews.

The following tabulation furnishes a reference for questions asked in Theory and Practice, Parts I and II, for the years 1971 through 1975. Five columns appear: (1) Brief description of the question. (2) Suggested time or whether the question is of a multiple choice (MC) nature. (3) Specific part of the examination. For example, "P-I" represents Practice, Part I. "T" represents Theory. (4) Date of the examination. (5) Question number. For

multiple choice questions, "8 of 1," for example, represents multiple choice question number eight within the first major question.

Readers who have passed the exam are encouraged to forward their copies of the tabulation to current students, CPA candidates, and educators. Also, the editor of this column welcomes comments on its usefulness. If sufficient demand exists, annual updates can be published, and/or a similar tabulation can be prepared for the CMA examination.

### ACCOUNTING CHANGES--OPINION #20

Revision of change in estimated life	MC	P-I	5/75	3 of 1
Change in depreciation method	MC	P-I	5/75	15 of 1
Change in depreciation method	MC	T	5/75	17 of 1
Revision of estimated life -- Building	MC	T	11/74	19 of 1
Change in depreciation method	MC	T	5/74	25 of 2
Revision in overhead rate	MC	T	5/74	30 of 2
Change in estimate	MC	T	5/73	6 of 1
Correction of an error	MC	T	5/73	10 of 1
Condensed statements of Income and Retained Earnings after adjustments for accounting changes	50-60	P-II	11/75	5
Statement presentation after adjustment for accounting changes	40-50	P-I	5/74	4
Definition, discussion, and justification for accounting changes; LIFO	25-30	T	5/72	7

### ALLOCATION OF INCOME TAXES

Deferred income taxes	MC	P-I	11/75	7 of 1
Deferred income taxes	MC	P-I	11/75	8 of 1
Interperiod allocation justified	MC	T	5/75	9 of 1
Computation with warrant	MC	P-II	11/74	6 of 1
Computation with installment sales	MC	P-II	5/74	7 of 1
Change in tax rates	MC	P-II	5/74	8 of 1
Appropriate use	MC	T	5/74	22 of 2
Rate basis	MC	T	5/74	23 of 2
Loss carryforward	MC	T	5/74	24 of 2
Appropriate use	MC	T	11/72	10 of 1
Loss carryforward	MC	T	11/71	36 of 2
Appropriate use	MC	T	5/71	17 of 1
Schedules of pretax accounting income, taxable income, and deferred tax	50-60	P-II	11/73	4
Deferred, liability, and net-of-tax methods; identification of items causing tax allocation	25-30	T	5/73	3
Calculation of deferred tax and timing differences; statement presentation	40-50	P-I	5/72	2
Reasons for interperiod and intraperiod tax allocation; concept of financial revenue and constructive receipt	25-30	T	5/71	7

### ANALYSIS OF FINANCIAL STATEMENTS

Working capital provided by operations	MC	P-I	11/75	10 of 1
Effect of current maturities or working capital	MC	P-I	11/75	11 of 1

Effect of funds defined as (1) cash vs. (2) working capital	MC	P-I	11/75	14 of 1
Merchandise inventory turnover	MC	P-II	11/75	9 of 1
Number times bond interest earned	MC	P-II	11/75	10 of 1
Current ratio and working capital	MC	P-I	5/75	16 of 1
Effect of stock dividend	MC	T	11/74	4 of 1
Current ratio	MC	T	11/74	5 of 1
Book value and earnings per share	MC	T	11/74	6 of 1
Trading on the equity	MC	T	11/74	7 of 1
Effect of no dividends from Sub	MC	T	11/74	8 of 1
Inventory turnover	MC	T	11/74	9 of 1
Operating cycle	MC	T	11/74	12 of 1
Risk analysis	MC	T	5/74	9 of 1
Statement presentation of receivables	MC	T	5/74	10 of 1
Operating cycle	MC	T	5/74	14 of 1
Test of solvency	MC	T	5/73	2 of 1
Trading on the equity	MC	T	5/73	3 of 1
Current asset classification	MC	T	5/73	14 of 1
Current liability classification	MC	T	5/73	17 of 1
Classification basis	MC	T	11/72	2 of 1
Working capital	MC	T	5/72	2 of 1
Times bond interest earned	MC	T	5/72	4 of 1
Acid test ratio	MC	T	5/72	10 of 1
Ratio of cash to noncash expenses	MC	T	5/72	11 of 1
Net realizable value of A/Pcc	MC	P-II	5/72	13 of 1
Days' sales outstanding	MC	T	11/71	1 of 1
Current bond interest earned	MC	T	11/71	9 of 1
Current liability classification	MC	T	5/71	10 of 1
Solvency ratios and other ratio analysis data	25-30	T	11/73	7
Multiple choice questions relating to ratio analysis (Numbers 1-8)	Short	P-II	5/72	1

### BONDS PAYABLE

Bond discount	MC	P-I	11/75	9 of 1
Computation of amount to sell	MC	P-I	11/75	13 of 1
Presentation in statement of financial position	MC	T	11/75	21 of 2
Exercise of warrants	MC	P-I	5/75	8 of 1
Loss on retirement	MC	P-I	5/75	17 of 1
Unamortized discount	MC	T	5/75	2 of 1
Issue cost	MC	T	5/75	3 of 1
Computation of interest--Bonds	MC	P-II	11/74	3 of 1
Discount on bonds converted	MC	P-II	11/74	4 of 1
Effective interest rate--Bonds	MC	P-II	11/74	5 of 1
Premium on temporary investment	MC	T	11/74	3 of 1
Loss on retirement	MC	P-II	5/74	2 of 1
Cost to refund bonds	MC	T	5/74	37 of 2
Retirement--Exchange of securities	MC	T	5/74	38 of 2
Meaning of debt premium	MC	T	11/73	3 of 1
Reporting discount on Balance Sheet	MC	T	11/73	7 of 1
Debentures with detachable warrants	MC	P-I	11/73	8 of 1
Warrants issued with debt	MC	P-I	5/73	14 of 1

Exercise of warrants	MC	P-I	5/73	15 of 1
Serial bonds and working capital	MC	P-II	11/72	14 of 1
Serial bonds with premium	MC	P-II	5/72	15 of 1
Gain on retirement of bonds	MC	P-II	5/72	16 of 1
Gain on conversion	MC	P-I	11/71	7 of 1
Serial bonds and working capital	MC	P-I	11/71	11 of 1
Computation of interest--Bonds	MC	P-I	11/71	12 of 1
Effective and nominal interest rates	MC	T	5/71	11 of 1
Capital budgeting decision--redeem old and issue new bonds--net cash investment, net cash benefit, payback, present value	40-50	P-II	11/75	3
Statement presentation of debt and premium; computation of carrying value; valuation after issue	25-30	T	5/71	3

### BONDS AND PROFIT SHARING

Computation--Bonus	MC	P-II	11/74	7 of 1
Contribution to profit sharing fund	MC	P-I	11/73	14 of 1
Computation--Bonus	MC	P-I	11/71	5 of 1

### BUSINESS COMBINATIONS AND CONSOLIDATED STATEMENTS

Pooling of interest--combined retained earnings balance	MC	P-I	11/75	3 of 1
Pooling of interest--combined net income	MC	P-I	11/75	4 of 1
Purchase--excess of fair value of assets over cost	MC	P-I	11/75	6 of 1
Reporting of 30% investment	MC	P-II	11/75	6 of 1
Minority interest share of net income	MC	P-II	11/75	7 of 1
Statement presentation of unconsolidated Sub	MC	T	11/75	13 of 1
Effect of Sub's earnings and dividends on parent's unconsolidated statements	MC	T	11/75	14 of 1
Fair market value in excess of cost	MC	P-II	5/75	2 of 1
Difference in accounting income and tax income	MC	P-II	5/75	3 of 1
Basis of noncash stock acquisition	MC	T	5/75	20 of 1
Interpretation of statements	MC	P-II	11/74	10 of 1
Interpretation of statements	MC	P-II	11/74	11 of 1
Equity method for unconsolidated Sub	MC	T	11/74	32 of 2
Minority interest	MC	T	11/74	37 of 2
Presentation of minority interest	MC	T	5/74	11 of 1
Tax allocation on investment income	MC	T	5/74	12 of 2
Undistributed earnings of subsidiary	MC	T	5/74	34 of 2

Equity method--Dividends	MC	T	5/74	3 of 2	Accounting entity concept	25-30	T	5/72	5	Estimated annual revenue and expense, present value of cash flows	40-50	P-II	11/71	4
Equity method with amortization	MC	P-II	5/74	11 of 1	Cash basis concepts of revenue and income; cash basis gross margin	25-30	T	5/72	3	Use of variable budget	25-30	T	11/71	7
Market value in excess of book value	MC	T	11/73	12 of 1	Purpose of financial accounting and reporting; general and qualitative objectives	25-30	T	11/71	6	Projected data -- Hospital	50-60	P-I	5/71	6
					Statements out of context involving circular reasoning, fallacies, half truths, erroneous comments, conclusions, or inconsistencies	25-30	T	5/71	4	Multiple choice relating to managerial	40-50	P-II	5/71	2
<b>BUSINESS COMBINATIONS AND CONSOLIDATED STATEMENTS (CONTINUED)</b>					<b>CORRECTIONS OF ACCOUNTS AND FINANCIAL STATEMENTS</b>					<b>FASB STANDARDS</b>				
Equity method--Income recognition	MC	T	11/73	13 of 1	Effect of physical inventory error	MC	T	11/75	11 of 1	Research and Development	MC	T	11/75	30 of 2
Undistributed earnings--Subsidiary	MC	T	11/73	14 of 1	Effect of overstatement of earnings	MC	T	11/75	12 of 1					
Equity method--Dividends received	MC	T	11/73	15 of 1	Effect of error on net income	MC	P-II	5/75	7 of 1	<b>FIXED ASSETS -- VALUATION, DEPRECIATION AND DEPLETION</b>				
Undistributed earnings	MC	T	11/73	16 of 1	Effect of error on working capital	MC	P-II	5/75	8 of 1	Recognition of gain on an exchange	MC	T	11/75	23 of 2
Undistributed earnings--Subsidiary	MC	T	11/73	17 of 1	Effect of error on retained earnings	MC	P-II	5/75	9 of 1	Financial basis for exchange	MC	T	11/75	22 of 2
Losses of a subsidiary	MC	T	11/73	18 of 1	Error in payables and supplies	MC	T	11/74	17 of 1	Computation of depletion	MC	P-II	11/75	15 of 1
Tax on undistributed earnings	MC	T	11/73	19 of 1	Reconstruction of accounts receivable	MC	P-II	5/74	10 of 1	Valuation of F.A.	MC	P-II	11/75	5 of 1
Tax on undistributed earnings	MC	P-I	11/73	20 of 1	Effect of errors on net income	MC	P-I	11/73	12 of 1	Computation of depletion	MC	P-I	5/75	1 of 1
Pooling--Paid in capital	MC	P-I	11/73	2 of 1	Reconstruction of sales	MC	P-I	5/73	5 of 1	Computation of depreciation	MC	P-I	5/75	2 of 1
Goodwill	MC	P-I	11/73	2 of 1	Effect of errors on net income	MC	P-II	11/72	3 of 1	Financial basis for trade-in	MC	P-I	5/75	12 of 1
Excess assigned to fixed assets	MC	P-I	11/73	3 of 1	Effect of errors on working capital	MC	P-II	11/72	4 of 1	Financial basis for exchange	MC	P-II	5/75	1 of 1
Revised basis of building--Purchase	MC	P-I	11/73	7 of 1	Effect of errors on total assets	MC	P-II	11/72	5 of 1	Basis for statement presentation	MC	P-II	5/75	10 of 1
Equity--Dividend received	MC	T	5/73	4 of 1	Preparation of worksheet to show adjustments	50-60	P-I	11/75	3	Straight-line depreciation	MC	T	5/75	11 of 1
Use of equity method	MC	T	5/73	8 of 1	Preparation of Balance Sheet accounts from various statements and information	50-60	P-I	5/75	4	Definition of depreciation	MC	T	11/74	10 of 1
Criteria for consolidation	MC	T	5/73	13 of 1	Errors in life insurance, consignments, inventory, maintenance contracts, interest receivable, fixed assets, and loss on purchase commitments	50-60	P-II	5/74	4	Basis for statement presentation	MC	T	11/74	21 of 2
Finder's fee arranging combination	MC	P-I	5/73	2 of 1	Errors in prepaid rent, insurance, and taxes, and in leaseholds, sale and lease-back, bad debts, sales commission, franchise, and inventory	30-40	P-II	5/73	3	Costs included in land account	MC	T	11/74	30 of 2
Pooling and stock previously held	MC	P-I	5/73	6 of 1						Increasing charge depreciation	MC	T	5/74	3 of 1
Profit on sale of fixed assets	MC	P-I	5/73	11 of 1						Cost of razing	MC	T	5/73	7 of 1
Income under cost method	MC	P-II	5/72	17 of 2						Computation of depletion	MC	P-II	11/73	9 of 1
Income under equity method	MC	P-II	5/72	18 of 2						Computation of depletion	MC	P-II	11/72	10 of 1
Reporting 40% investment	MC	P-II	5/72	19 of 2						Treatment of improvement to assets	MC	T	11/72	7 of 1
Cost and equity methods	MC	P-II	5/72	20 of 2						Units-of-production method	MC	T	5/72	3 of 1
Reporting 30% investment	MC	P-II	5/72	21 of 1						Notes to financial statements	MC	T	5/72	8 of 1
Consolidated assets	MC	P-II	5/72	27 of 2						Installment purchase	MC	P-II	5/72	12 of 1
Pooling criteria	MC	P-II	5/72	28 of 2						Gain on sale	MC	P-I	11/71	2 of 1
Excess assigned to fix assets	MC	P-II	5/72	29 of 2						Financial method for trade-ins	MC	P-I	11/71	3 of 1
Expenses affecting a combination	MC	T	5/72	13 of 1						Tax method for trade-ins	MC	P-I	11/71	4 of 1
Comparative statement--Pooling	MC	T	5/72	14 of 1						Appraisal increments	MC	T	11/71	5 of 1
Negative goodwill	MC	T	5/72	15 of 1						Inclusion in fixed assets	MC	T	11/71	10 of 1
Goodwill	MC	T	5/72	16 of 1						Group depreciation	MC	T	11/71	19 of 1
Minority interest	MC	T	11/71	14 of 1						Sales tax on machinery	MC	T	5/71	14 of 1
Intercompany eliminations	MC	T	11/71	15 of 1						Computation of asset cost and depreciation	Short	P-I	11/74	5b
Foreign subsidiary	MC	T	11/71	16 of 1						Pollution control equipment	Short	T	11/73	4a
Foreign subsidiary	MC	T	11/71	17 of 1						Self-constructed asset; depreciation	25-30	T	11/73	4
Treasury stock effecting combination	MC	T	11/71	27 of 2						Conventional accounting concept of depreciation; depreciation of computer system	25-30	T	5/72	4
Pooling of interest at midyear	MC	T	11/71	28 of 2										
Property leased by subsidiary	MC	T	11/71	34 of 2										
Goodwill from consolidation	MC	T	5/71	4 of 1										
Reconstruction--Stockholders' equity	MC	P-I	5/71	6 of 1										
Reconstruction--Capital stock	MC	P-I	5/71	7 of 1										
Current stockholders' equity	MC	P-I	5/71	8 of 1										
Current retained earnings	MC	P-I	5/71	9 of 1										
Working capital of subsidiary	MC	P-I	5/71	10 of 1										
Consolidated trial balance	60-70	P-II	5/75	5										
Principles of purchase and pooling methods	25-30	T	5/75	4										
Consolidated balance sheets for purchase and pooling of interest	40-50	P-II	11/74	5										
Consolidated balance sheet and income statement with intercompany profit in land, fixed assets, inventory and sales	40-50	P-II	11/73	3										
Purchase vs pooling; meeting pooling criteria	25-30	T	5/73	4										
Consolidated balance sheet and income statement with assignment of excess of cost over book value to assets; profit in sales, bonds, and inventory	50-60	P-I	5/73	3										
Applications of APB Opinion No. 18	40-50	P-I	11/72	2										
Comparative consolidated statements of income and stockholders' equity with emphasis on changes within stockholders' equity	40-50	P-II	11/72	4										
Criteria for consolidated statements; eliminating entries for goodwill, equipment, merchandise, and note	25-30	T	11/72	7										
Consolidated balance sheet with intercompany profit in inventory, bonds, and fixed assets; purchase in steps; purchase between statement dates	50-60	P-I	5/72	4										
<b>CASH</b>					<b>COST AND MANAGERIAL</b>					<b>FUND ACCOUNTING - MUNICIPAL AND OTHER</b>				
Payroll account	MC	P-II	11/74	1 of 1	Multiple choice relating to managerial and quantitative methods	50-60	P-I	11/75	2	Calculation of property tax and journal entries	40-50	P-II	11/75	4a & b
Composition of cash	MC	T	11/74	2 of 1	Computation - inventoriable unit cost operating profit, variances	40-50	P-I	11/75	5	Various multiple choice relating to state and local government (Nos. 31-40)	Short	T	11/75	2
Difference between cash and accrual	MC	T	11/74	15 of 1	Various cost concepts including semi-variable cost, standard cost, forecasting, etc. (Nos. 15-20)	Short	T	11/75	1	Major differences in purpose of accounting and reporting for a large city vs. industry	25-30	T	5/75	6
Bank reconciliation	MC	P-II	11/72	1 of 1	Process vs. job order; equivalent production; normal vs. abnormal spoilage; FIFO process costing vs. weighted average	25-30	T	11/75	6	Multiple choice relating to municipal and nonprofit hospital	40-50	P-I	11/74	2
					Multiple choice relating to managerial and quantitative methods	40-50	P-I	5/75	2	Journal entries for all funds and groups of accounts -- Municipal	40-50	P-II	5/74	5
					Effect of alternate product mix on total income	30-40	P-II	5/75	3	Multiple choice relating to fund and managerial	25-30	T	11/73	2
					Multiple choice relating to managerial	25-30	T	5/75	2	Fund budgets	40-50	P-II	5/73	2
					Effect of errors on cost of goods sold and other accounts	25-30	T	5/75	5	Worksheet for adjustments and distributions to funds; financial statements for General Fund	40-50	P-II	11/72	5
					Cost of goods manufactured; equivalent pounds of production; joint costs	50-60	P-I	11/74	4	Multiple choice relating to funds	40-50	P-I	5/72	6
					Fixed and variable costs	25-30	T	11/74	5	Journal entries for funds	50-60	P-I	11/71	6
					Standard costs; disposition of variances; factory overhead applications	25-30	T	11/74	6	Multiple choice relating to fund and managerial	25-30	T	5/71	2
					Multiple choice relating to managerial and quantitative	50-60	P-I	5/74	1					
					Cost of sales; variances	50-60	P-I	5/74	3	<b>INSTALLMENT SALES</b>				
					Definition of terms; breakeven	25-30	T	5/74	7	Deferred income taxes related to deferred gross profit	MC	P-II	5/75	4 of 1
					Multiple choice relating to cost accounting	40-50	P-I	11/73	2	Gain or loss on repossession	MC	P-II	11/74	14 of 1
					Breakeven and contribution to profit	40-50	P-I	11/73	4	Appropriate use	MC	T	11/72	12 of 1
					Product mix and computation of unit cost	40-50	P-I	11/73	5	Appropriate use	MC	T	11/71	35 of 2
					Make or buy decisions	30-40	P-II	11/73	5	Appropriate use	MC	T	5/71	18 of 1
					Multiple choice relating to managerial	50-60	P-I	5/73	6	Revenues and expenses under installment method	Short	P-II	11/73	2b
					Inventories; spoilage	60-70	P-II	5/73	5					
					Multiple choice relating to managerial	25-30	T	5/73	2	<b>INSURANCE</b>				
					Unaudited quarterly statements; variations of actual from expected activity	25-30	T	5/73	7	Coinsurance	MC	T	11/72	16 of 1
					Cost of production	40-50	P-I	11/72	4	Coinsurance	MC	P-I	11/71	13 of 1
					Multiple choice relating to managerial	50-60	P-II	11/72	2	Coinsurance	Short	P-I	11/74	5a
					Multiple choice relating to managerial	25-30	T	11/72	2					
					Budgets	40-50	P-I	5/72	3	<b>INTANGIBLES--VALUATION AND AMORTIZATION</b>				
					Optimal product mix	40-50	P-I	5/72	5	Amortization of patent	MC	P-II	11/75	13 of 1
					Equivalent units	40-50	P-II	5/72	5	Trademark	MC	T	11/74	20 of 2
					Cost of production; equivalent units	40-50	P-I	11/71	3	Patents	MC	T	11/72	8 of 1
										Goodwill written off	MC	T	5/71	15 of 1
										Research and development costs	25-30	T	5/74	4
										Franchise fees and rental of equipment	25-30	T	11/71	4
										Problems in accounting for intangibles; possible accounting solutions	25-30	T	5/71	5
										<b>INTERNATIONAL OPERATIONS</b>				
										Statement presentation of loss from currency devaluation	MC	T	5/75	18 of 1
										Conversion--Purchases	MC	T	11/74	33 of 2
										Conversion to U.S. dollars--Goodwill	MC	T	11/74	38 of 2
										Conversion using average rate	MC	T	11/72	17 of 1

Criteria for using consolidated financial statements; exchange ratio; standards of disclosure required by FASB #1

25-30 T 11/75 4

# INVENTORIES

Computation - ending inventory	MC	P-II	11/75	16 of 1
Cost to retail ratio	MC	P-II	11/75	17 of 1
Computation-cost of goods sold - periodic	MC	T	11/75	1 of 1
Lower of cost or market	MC	P-I	5/75	7 of 1
Error in inventory	MC	T	11/74	11 of 1
Retail inventory method	MC	T	11/74	28 of 2
Valuation basis	MC	T	11/74	34 of 2
Measurement bases	MC	T	11/74	36 of 2
Lower of cost or market	MC	T	5/74	6 of 1
Inventory and cost of goods sold	MC	P-II	5/74	6 of 1
Retail inventory method	MC	P-II	5/74	14 of 1
Estimate based on markup on cost	MC	P-I	11/73	10 of 1
Loss on purchase commitment	MC	P-I	5/73	4 of 1
Estimate based on markup on cost	MC	T	11/72	6 of 1
Effect of FIFO on income	MC	P-II	5/72	9 of 1
Estimate based on markup on cost	MC	P-II	5/72	14 of 1
Use of price index numbers	MC	T	5/72	7 of 1
Lower of cost or market	MC	T	11/71	2 of 1
Discounts lost	MC	T	11/71	3 of 1
Departure from cost basis	MC	T	11/71	4 of 1
Unacceptable methods	MC	T	5/71	9 of 1
Error in inventory	MC	T	5/71	12 of 1
LIFO, FIFO, and weighted average	Short	P-II	11/74	3a
Retail inventory method	Short	P-II	11/74	3b
Periodic LIFO; dollar value LIFO; advantages and disadvantages	25-30	T	5/74	5
Content and pricing of manufacturing inventories; errors in recording	50-60	P-I	11/72	3

# INVESTMENTS

Classification	MC	T	5/74	7 of 1
Determining total cost	MC	P-I	11/71	14 of 1
Identifying securities; making adjusting entries	50-60	P-I	5/75	3
Classification; tax allocation for undistributed earnings of Sub	25-30	T	11/74	3
Equity method of accounting for Investments-Opinion No. 18	40-50	P-I	11/72	2
Reporting at cost vs. current market value	15-20	T	11/72	6
Transactions involving Investments and Investment Revenue	40-50	P-II	11/71	5

# LEASES

Lease equivalent to a sale	MC	P-I	11/75	15 of 1
Operating lease	MC	P-I	11/75	16 of 1
Tax difference between sale and operating lease	MC	P-I	11/75	17 of 1
Computations	MC	P-II	5/75	5 of 1
Computation of interest expense	MC	P-II	5/75	6 of 1
Statement presentation	MC	T	5/75	7 of 1
Amortization on installment purchases	MC	T	5/75	8 of 1
Statement presentation	MC	T	5/75	12 of 1
Gross profit on installment sale	MC	P-II	5/74	1 of 1
Interest and depreciation	MC	P-II	5/74	15 of 1
Assignment to third parties	MC	T	5/74	26 of 2
Sale by manufacturer or dealer	MC	T	5/74	33 of 2
Statement presentation	MC	P-I	11/73	6 of 1
Sale and leaseback	MC	P-I	5/73	12 of 1
Sale and leaseback	MC	T	5/72	18 of 1
Taxes, insurance, and maintenance	MC	T	11/71	23 of 2
Sale and leaseback	MC	T	11/71	24 of 2
Financing method	MC	T	11/71	25 of 2
Financing vs operating methods	MC	T	11/71	26 of 2
Property under construction	MC	T	5/71	1 of 1
Sale and leaseback	MC	T	5/71	6 of 1
Criteria for operating leases and sales leases; entries for a lease-purchase	25-30	T	11/75	5
Revenues and expenses by type of computer program lease	50-60	P-II	11/73	2
Financing vs. operating leases; disclosures in statements; sale of leases	25-30	T	5/73	5
Present value; deficiency in income taxes; interest and amortization	40-50	P-II	5/72	4

# LIABILITIES

Warranty expense and liability	MC	P-I	5/75	4 of 1
Statement presentation of estimated liability	MC	T	5/75	16 of 1
Classification of contingencies	MC	T	5/74	1 of 1
Liability for unredeemed coupons	MC	P-I	5/73	1 of 1
Liability for unredeemed coupons	MC	P-II	11/72	15 of 1
Warranty repair and replacement cost	MC	T	5/72	9 of 1
Identification--Contingencies	MC	T	11/71	11 of 1
Property taxes	MC	T	11/71	12 of 1

# LONG TERM CONTRACTS

Percentage of completion	MC	P-I	5/75	13 of 1
Percentage of completion	MC	P-I	5/75	14 of 1
Earned but unbilled revenue	MC	T	11/74	18 of 1
Computation	MC	P-II	11/72	12 of 1
Computation	MC	P-II	11/72	13 of 1
Income statements for completed contract; cash budgets	50-60	P-I	11/74	3
Revenue and income under both methods; reconstructing balances	50-60	P-II	5/73	4

# OWNERS' EQUITY--PERSONAL FINANCIAL STATEMENTS

Value of land	MC	P-II	11/72	2 of 1
Statement of assets and liabilities using current values	40-50	P-I	11/73	6
Statement of assets and liabilities and statement of changes in assets	40-50	P-II	5/71	5

# OWNERS' EQUITY--CORPORATIONS

Stock dividend	MC	P-I	11/75	1 of 1
Stock rights	MC	P-I	11/75	2 of 1
Effect of stock dividend	MC	P-I	11/75	5 of 1
Stock option - total compensation	MC	P-II	11/75	8 of 1
OWNERS' EQUITY--CORPORATIONS (CONTINUED)				
Treasury stock	MC	T	11/75	8 of 1
Debt securities with warrants	MC	T	11/75	9 of 1
Compensatory stock option plan	MC	T	11/75	10 of 1
Measurement date for compensatory stock option plan	MC	T	11/75	24 of 2
Expensing compensation in a compensatory stock option plan	MC	T	11/75	25 of 2
Stock options - compensation and deferral	MC	P-II	5/75	11 of 1
Stock dividend	MC	P-II	5/75	15 of 1
Reissue of treasury stock	MC	T	5/75	19 of 1
Redemption of preferred stock	MC	T	5/75	1 of 1
Exchange of bonds for stock	MC	T	11/74	16 of 1
Stock warrants	MC	P-II	11/74	15 of 1
Reissue of treasury stock	MC	P-II	11/74	16 of 1
Stock dividend	MC	P-II	5/74	12 of 1
Stock option and compensation	MC	P-II	5/74	16 of 1
Use of term "reserve"	MC	T	5/74	2 of 1
Dating of retained earnings; Contingency reserve	MC	T	5/74	5 of 1
Measurement date for option	MC	T	5/74	35 of 2
Stock option for future services	MC	T	5/74	36 of 2
Stock dividend	MC	T	5/73	5 of 1
Book value per share	MC	T	5/73	12 of 1
Settlement of legal suit	MC	P-I	5/73	13 of 1
Classification--warrants outstanding	MC	T	11/72	3 of 1
Damages from litigation	MC	T	11/72	14 of 1
Prior period losses	MC	T	11/72	15 of 1
Sale of stock rights	MC	P-II	5/72	10 of 1
Dating of retained earnings	MC	T	5/72	5 of 1
Stock dividend	MC	P-I	11/71	8 of 1
Stock dividend	MC	P-I	11/71	10 of 1
Retirement of treasury stock	MC	P-I	11/71	15 of 1
Cash dividend	MC	T	11/71	13 of 1
Stock dividend	MC	T	11/71	29 of 2
Deferred compensation contracts	MC	T	11/71	37 of 2
Proceeds--Debt and warrants	MC	T	11/71	38 of 2
Prior period costs	MC	T	5/71	2 of 1
Liquidation preference on preferred	MC	T	5/71	5 of 1
Quasi-reorganization	MC	T	5/71	8 of 1
Prior period adjustment presentation	MC	T	5/71	20 of 1

Preparation of stockholders' equity section; computation of EPS	25-30	T	11/74	7
Worksheet to properly classify stockholders' equity items	50-60	P-I	5/74	2
Issue of convertible debt vs. debt with separate warrants; journal entry for issuance of notes and warrants	25-30	T	5/74	3
Stock options as compensation; statement presentation	25-30	T	5/72	6
"Secret reserves" and "watered stock"	25-30	T	11/71	3

# OWNER'S EQUITY - PARTNERSHIP

Retirement of partner	MC	P-II	11/75	1 of 1
Admission of new partner	MC	P-II	11/75	2 of 1
Admission of new partner	MC	P-II	11/75	3 of 1
Liquidation of partnership	MC	P-II	11/75	4 of 1
Computation of net income	MC	P-I	5/75	9 of 1
Admission of new partner	MC	P-I	5/75	10 of 1
Computation of bonus	MC	P-I	5/75	11 of 1
Profit and loss agreement	MC	T	5/75	4 of 1
Admission of new partner	MC	T	5/75	5 of 1
Insolvent partnership	MC	T	5/75	6 of 1
Cash distribution at dissolution	MC	P-II	11/74	8 of 1
Admission of new partner	MC	P-II	11/74	9 of 1
Partnership for federal income tax	MC	P-I	11/74	15 of 1
Contribution of property	MC	P-I	11/74	16 of 1
Capital at formation	MC	P-I	5/73	7 of 1
Capital at formation	MC	P-I	5/73	8 of 1
Goodwill vs bonus	MC	T	5/73	18 of 1
Goodwill at withdrawal of partner	MC	P-I	11/71	9 of 1

# OWNER'S EQUITY - PARTNERSHIP (CONTINUED)

Adjustment of net income and capital accounts; capital contributions at formation; goodwill at formation; salary, bonus, and interest allowances; sale of interest	40-50	P-I	11/72	5
Computing current value of partnership assets--A/Rec, inventory, and fixed assets; pooling of interest	50-60	P-II	11/71	3

# OWNER'S EQUITY - EARNINGS

PER SHARE				
Computation	MC	P-II	11/74	2 of 1
Convertible bonds	MC	P-II	5/74	9 of 1

# Computation with options

Primary EPS on consolidated basis	MC	P-I	11/73	4 of 1
Fully diluted on consolidated basis	MC	P-I	11/73	5 of 1
Computation--Fully dilutes	MC	P-I	5/73	3 of 1
Convertible debt	MC	T	5/73	9 of 1
Options--Primary	MC	P-II	11/72	6 of 1
Options--Fully diluted	MC	P-II	11/72	7 of 1
Equivalents--Preferred stock	MC	P-II	11/72	8 of 1
Effect of cumulative preferred	MC	T	11/72	13 of 1
Yield rate on bonds	MC	P-II	5/72	30 of 2
Effective exercise price of warrant	MC	P-II	5/72	31 of 2

Treasury stock method for warrants	MC	P-II	5/72	32 of 2
Equivalents--Preferred stock	MC	P-II	5/72	33 of 2
Average shares outstanding	MC	P-I	11/71	6 of 1
Convertible debentures	MC	T	11/71	39 of 2
Options and warrants	MC	T	11/71	40 of 2
Computation of net income and number of shares (primary and fully diluted)	40-50	P-II	5/72	4
Effect of dividends on preferred stock; treasury stock method; convertible debentures	25-30	T	5/74	6
Equivalency of debentures, preferred stock, options; weighted average number of shares; computation	40-50	P-I	5/71	4

# PENSION COSTS

Past service benefit cost	MC	T	11/75	2 of 1
Statement presentation	MC	T	11/75	3 of 1
Minimum charge for pension plan expense	MC	T	11/75	4 of 1
Recognition of actuarial gain or loss	MC	T	11/75	5 of 1
Actuarial cost methods	MC	T	11/75	6 of 1
Pension plan disclosures	MC	T	11/75	7 of 1
Vested rights	MC	T	5/74	21 of 2
Statement presentation	MC	T	5/73	11 of 1
Past Service cost	MC	T	11/72	9 of 1
Actuarial gains and losses	MC	T	11/71	30 of 2
Accrued or prepaid cost	MC	T	11/71	31 of 2
Past and current service cost	MC	T	5/71	3 of 1
Actuarial gains and losses; computation of pension cost; statement presentation	25-30	T	11/73	5

# POLICIES (ACCOUNTING)

Disclosure of policies	MC	T	5/74	28 of 2
Significant accounting policies	MC	T	11/73	10 of 1
Statement presentation	MC	T	11/73	11 of 1

# PRESENT VALUE TECHNIQUES

Computation of bond selling price	MC	P-I	11/75	12 of 1
Discount on note receivable	MC	P-I	5/75	5 of 1
Use of present value tables	MC	T	11/74	23 of 2
Use of present value tables	MC	T	11/74	24 of 2
Use of present value tables	MC	T	11/74	25 of 2
Use of present value tables	MC	T	11/74	26 of 2
Effectiveness for capital budgeting	MC	T	11/74	35 of 2
Discount on note receivable	MC	P-II	5/74	3 of 1
Deferred income taxes	MC	P-II	5/74	4 of 1
Interest income	MC	P-II	5/74	5 of 1
Interest rate imputed	MC	T	5/74	29 of 2
Noninterest bearing note	MC	T	5/74	31 of 2
Proceeds of note discounted	MC	P-I	11/73	13 of 1
Proceeds of note discounted	MC	P-II	5/72	11 of 1
Use of compound interest formulas	MC	P-I	5/71	11 of 1
Use of compound interest formulas	MC	P-I	5/71	12 of 1
Use of compound interest formulas	MC	P-I	5/71	13 of 1
Use of compound interest formulas	MC	P-I	5/71	14 of 1
Use of time value of money in long range planning	25-30	T	5/73	6

# PRICE LEVEL ADJUSTMENTS

Sales restated for price level changes	MC	P-II	11/75	11 of 1
Mortgage note payable restates	MC	P-II	11/75	12 of 1
Unacceptable practice	MC	T	5/73	15 of 1
Monetary items	MC	T	11/72	18 of 1
Support for statements	MC	T	5/72	17 of 1
Adjusting financial data for general price level changes	25-30	T	5/75	7
Support for price level statements; price level vs current value; monetary vs nonmonetary; subsequent statements	25-30	T	11/73	3
Various multiple choice questions relating to price level accounting	40-50	P-II	11/71	2

# QUANTITATIVE TECHNIQUES

Definitions	MC	P-II	11/74	17 of 2
Definitions	MC	P-II	11/74	18 of 2
Definitions	MC	P-II	11/74	19 of 2
Average cost function	MC	P-II	11/74	20 of 2
Learning curve	MC	P-II	11/74	26 of 2
Learning curve	MC	P-II	11/74	27 of 2
Linear programming	MC	P-II	11/74	32 of 2
Linear programming	MC	P-II	11/74	33 of 2
Probability of sales	MC	P-I	5/74	13 of 1
Definitions	MC	P-I	5/74	14 of 1
Definitions	MC	P-I	5/74	15 of 1
Definitions	MC	P-I	5/74	16 of 1
Definitions	MC	P-I	5/74	17 of 1
Definitions	MC	P-I	5/74	18 of 1
Various multiple choice questions relating to use of probability diagram (Questions 28-31 of 2)	Short	P-II	11/74	2

## The Current Crisis (Continued from page 7)

such thing as "true income," "real income," or "absolute income" in a world of uncertainty. And the insistence of the financial community that we measure it will not bring the impossible to pass.

Scholars in the field of economics had quite a few more years in which to come to an understanding and eventual rejection of micro income analysis than we have as yet had. If economists, who have never been required to audit a large company, abandon income as a tool which "breaks in our hands," perhaps accountants ought to heed this caveat. Not only is the typical accountant unaware of these conceptual limitations; in fact, the typical accountant has gone farther and proceeded with the measurement of income with almost total disregard as to how the resulting amounts ought to be interpreted. We have undertaken an awesome task and the prognosis does not improve when a seven-member board is vested with the power to prescribe the exact procedures to be used to measure a continually subjective phenomenon. It matters little how many there are who are doing the guessing. A narrowing in the diversity of accounting treatment rules is viewed by many as the solution to our present state of affairs. This will only postpone the inevitable. Sooner or later we will have to come to grips with an answer to the question of what we intend to convey with income. If the same difficulties which were encountered by economists are now being faced by accountants, although manifested in a different form, then the really basic question remains and A.P.B. Opinions and FASB Statements which narrow accounting diversity do not go very far in providing solutions to those more basic difficulties. Until we face the phenomenon of income squarely, our more serious difficulties will remain.

## Conclusion

The outlook for a rapid improvement in the philosophical underpinnings of our profession is not bright at all. Both solutions, the complete abandonment of income and, failing that, a massive educational program to convey the subjectivity character of any income measure, require widespread knowledge of the serious limitations inherent in the measurement of income, even on a purely conceptual level. There is, unfortunately, little prospect that accountants will conclude that income determination "breaks in our hands." It is clearly possible that, given as much time with income concepts as the economists

had, we will, in turn, also abandon income measurement. But by then, will institutional rigidity and the precedent of a long line of buttressing opinions of an increasingly quasi-judicial body so embed income measurement that it will become impossible to emerge from the quagmire? It will be years before we will be able to discern the path the profession will take to solve this dilemma. The pivotal question remains unanswered. What do we intend to convey by income measurement?

## Notes

<sup>1</sup>John R. Hicks, *Value and Capital* (Oxford, 1946), p. 174. Hicks goes on to state that the concept of income is one which the theoretical economist employs "... at his peril." p. 180.

<sup>2</sup>Herbert T. McAnly, "The Case for LIFO: It Realistically States Income and is Applicable to Any Industry," *The Journal of Accountancy*, June, 1953, pp. 691-700.

<sup>3</sup>Arthur M. Louis, "A Fat Maverick Stirs Up the Accounting Profession," *Fortune*, December, 1970, pp. 96-99.

<sup>4</sup>Raymond J. Chambers, "A Matter of Principle," *The Accounting Review*, July, 1966, pp. 443-57.

<sup>5</sup>For an early expression of this concern see Edward E. Williams, "A Note on Accounting Practice, Investor Rationality, and Capital Resource Allocation," *Financial Analysts Journal*, July-August, 1969, pp. 37-40.

<sup>6</sup>*Forbes*, April 1, 1970, p. 40. (Emphasis added.)

Various multiple choice questions relating to use of probability tables, exponential smoothing, and linear programming	50-60	P-I	5/73	5
Use of statistical sampling tables for sample size, upper precision limit, and sampling objectives	40-50	P-I	11/72	6
Various multiple choice questions applying quantitative techniques to managerial accounting	25-30	T	5/72	2
Various multiple choice questions relating to linear programming	50-60	P-I	11/71	5
Various multiple choice questions relating to PERT, EOG, and linear programming	50-60	P-I	5/71	5
<b>RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS</b>				
Computation of allowance	MC	P-II	11/75	14 of 1
Accounts receivable aging	MC	T	5/75	13 of 1
<b>RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)</b>				
Effect on working capital	MC	P-II	11/74	12 of 1
Balance sheet disclosure	MC	T	11/74	27 of 2
Unearned discounts and interest; finance charges	MC	T	11/74	31 of 2
End of year adjustment	MC	P-I	11/73	9 of 1
Raising cash from A/Rec	MC	T	11/72	1 of 1
Equity in Assigned A/Rec	MC	T	5/72	1 of 1
Effect on working capital	MC	P-I	11/71	1 of 1
Measurement	MC	T	5/71	16 of 1
<b>SOCIAL COSTS</b>				
Recognition and measurement	Short	T	11/73	4b
<b>STATEMENT OF CHANGES IN FINANCIAL POSITION</b>				
Trade-in of equipment	MC	T	5/74	27 of 2
Exchange of securities	MC	T	5/74	40 of 2
Appropriateness of presentation	MC	T	5/73	16 of 1
Stock dividends declared	MC	T	11/71	21 of 2
Statement objective	MC	T	11/71	22 of 2
All financial resources	MC	T	5/71	7 of 1
Discussion on APB #19; discussion of certain items as sources or uses of working capital	25-30	T	11/75	7
Preparation--Working capital basis	40-50	P-I	5/74	5
Preparation--Working capital basis	40-50	P-I	5/73	2
Statement of objectives and critique of sample statement	25-30	T	11/72	5
Various multiple choice questions	Short	P-II	5/72	22ff
Preparation--Working capital basis	50-60	P-II	5/71	3
<b>TAX</b>				
Worksheet - Federal Income Tax	40-50	I-I	11/75	4
Multiple choice relating to corporations and partnerships	50-60	P-II	11/75	2
Corporation--Taxable income	40-50	P-I	5/75	5
Multiple choice relating to individuals and partnerships	50-60	P-II	5/75	2
Multiple choice relating to corporations and partnerships	40-50	P-I	11/74	1
Individual	50-60	P-II	11/74	4
Corporate; gain or loss on property disposition	40-50	P-I	5/74	3
Multiple choice relating to individuals	40-50	P-II	5/74	2
Individual	50-60	P-I	11/73	3
Multiple choice relating to corporations and partnerships	50-60	P-II	11/73	1
Individuals and proprietorship	40-50	P-I	5/73	4
Individuals	40-50	P-II	5/73	1
Multiple choice relating to corporations and partnerships	50-60	P-I	11/72	1
Individual; capital gains and losses	50-60	P-II	11/72	3
Multiple choice relating to individuals	50-60	P-I	5/72	1
Individuals; tax planning; Sub Chapter S	50-60	P-II	5/72	3
Corporate	50-60	P-I	11/71	2
Multiple choice relating to individuals	50-60	P-II	11/71	1
Long-term capital gains	25-30	T	11/71	5
Corporate	40-50	P-I	5/71	2
Multiple choice relating to individuals	50-60	P-II	5/71	1

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